

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58134

TOWN OF ROCKFORD

Spokane County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: April 11, 1997

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TOWN OF ROCKFORD
Spokane County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Mayor
Town of Rockford
Rockford, Washington

We have audited the financial statements, as listed in the table of contents, of the Town of Rockford, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 27, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Town of Rockford is the responsibility of the town's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the town's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington (RCW) 43.09.260*. This statute requires the State Auditor to inquire as to whether the town complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the town's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the town and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

November 27, 1996

TOWN OF ROCKFORD
Spokane County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Mayor
Town of Rockford
Rockford, Washington

We have audited the financial statements of the Town of Rockford, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 27, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the town is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the town, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

November 27, 1996

TOWN OF ROCKFORD
Spokane County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The Town Should Comply With Budget Laws And Regulations

During our review of the budget process, we noted instances of noncompliance with state laws and regulations.

Expenditures exceeded budgeted appropriations in four out of eleven funds. The approved budget was exceeded by \$38,614 for all funds.

RCW 35.33.125. states:

Liabilities incurred by any officer or employee of the city or town in excess of any budget appropriations shall not be a liability of the town. The clerk shall issue no warrant and the city or town legislative body or other authorized person shall approve no claim for an expenditure in excess of the total amount appropriated for any individual fund

The budget was exceeded in part due to management's lack of understanding of the state laws and lack of oversight as it relates to the status of the budgeted appropriations against the actual expenditures on a regular basis.

The effect of the procedural weaknesses is to circumvent the intent of the budgetary process which is to effectively manage the resources of the town. By failing to amend budgets in a timely manner, officials risk overexpending fund balances as well as appropriations.

We recommend the town develop and implement procedures to provide for review of expenditures to ensure that budget appropriations are not exceeded and that, if necessary, budget amendments be made in a timely manner.

Auditee's Response

Response included with second finding.

2. The Town's Controls Over Accounting and Reporting Should Be Improved

Our audit identified several significant weaknesses in the controls over the town's accounting and reporting procedures. We noted the following weaknesses:

- a. Customer utility payments are not recorded until deposits are prepared.

- b. Deposits are not prepared or taken to the bank in a timely manner. Receipts are stored on site and deposited as time permits.
- c. We noted numerous immaterial errors in the financial reports which included negative beginning cash balances in four funds and improper presentation of ending cash and investments.
- d. The minutes of the board of commissioners meetings did not indicate approval of all claims and payroll expenditures. We were unable to determine if all expenditures were properly approved. Additionally, formal approval of the minutes was noted in only four months during 1995.

Lack of segregation of duties and limited staffing has inhibited the development and operation of a uniform and effective system of accounting controls. Inadequate management review procedures and lack of compensating controls have also contributed to the internal control weaknesses noted above.

These internal control weaknesses have contributed to inaccuracies in the accounting records, inconsistencies in reports, violations of budgetary laws, and inadequate safeguarding of the town's assets.

We recommend:

- a. Deposits be made in a timely manner.
- b. Staff be provided with sufficient training on computerized systems and reports.
- c. Minutes from the meetings of the board of commissioners be reviewed for completeness and approved in a timely manner.
- d. Accounting records should accurately reflect utility customer activity.
- e. Policies and procedures should be developed to improve review of accounting records and reports.

Auditee's Response

As a result of the audit, the following procedural changes have been made or are being adopted:

- a. *Deposits are now being made in a timely manner.*
- b. *Office staff is receiving training on the computer system by attending regular users meetings and on-going support from the programmers. Workshops will be attended and written information obtained to assist with understanding and properly completing reports. Staff will verify totals as needed to insure accurate reports are submitted.*
- c. *The minutes of the meetings of the Town Council will include all expenditures, including payroll, and will be reviewed and adopted generally within 2 weeks of the meeting.*
- d. *Accounting records will be posted within 1-2 working days of receiving payment. A report will be generated to show any exceptions made to the original billing cycle.*
- e. *Procedures will be adopted to improve accounting records and reports. The mayor will review on a regular basis.*

The council will receive a monthly report, showing year to date revenues and expenses. They will be instructed how to read the reports, and the mayor will sign the monthly report that will be kept with the accounting for the year. Budget amendments will be made in a timely manner and appropriations will not exceed budgeted amounts.

The mayor, town clerk, and one council member were present during the exit conference. Many issues were clarified at that time. The mayor and staff are confident the problems associated with this audit will be reduced if not eliminated in the future, as there is increased awareness of certain rules and state laws.

Auditor's Concluding Remarks

We appreciate the town's timely response to our audit findings. We will review these areas in our next regularly scheduled audit.

TOWN OF ROCKFORD
Spokane County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

Mayor
Town of Rockford
Rockford, Washington

We have audited the accompanying statements of Fund Resources and Uses Arising from Cash Transactions of the various funds of the Town of Rockford, Spokane County, Washington, for the fiscal year ended December 31, 1995. These financial statements are the responsibility of the town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the town prepares its financial statements on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the recognized revenues and expenditures of the funds of the Town of Rockford for the fiscal year ended December 31, 1995, on the cash basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Debt is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 27, 1996, on our consideration of the town's internal control structure and a report dated November 27, 1996, on its compliance with laws and regulations.

Brian Sonntag, CGFM
State Auditor

November 27, 1996

TOWN OF ROCKFORD
Spokane County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Mayor
Town of Rockford
Rockford, Washington

We have audited the financial statements of the Town of Rockford, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 27, 1996. These financial statements are the responsibility of the town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the Town of Rockford taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag, CGFM
State Auditor

November 27, 1996

TOWN OF ROCKFORD
Spokane County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Mayor
Town of Rockford
Rockford, Washington

We have audited the financial statements of the Town of Rockford, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 27, 1996.

We have applied procedures to test the town's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

The following requirement was determined to be not applicable to its federal financial assistance programs:

- Relocation assistance and real property acquisition

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the town's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the town had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also

serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

November 27, 1996

TOWN OF ROCKFORD
Spokane County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions

Mayor
Town of Rockford
Rockford, Washington

We have audited the financial statements of the Town of Rockford, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 27, 1996.

In connection with our audit of the financial statements of the town and with our consideration of the town's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to one nonmajor federal financial assistance program for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures, matching funds, reporting, and supporting documentation that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the town's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the Town of Rockford had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

November 27, 1996

TOWN OF ROCKFORD
Spokane County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Mayor
Town of Rockford
Rockford, Washington

We have audited the financial statements of the Town of Rockford, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 27, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the town's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated November 27, 1996.

The management of the town is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the

structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Purchasing and receiving
 - Payroll
 - General ledger
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
 - Types of services
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Receivables
 - Accounts payable
 - Inventory control
 - Property, plant, and equipment
- **General Requirements**
 - Relocation assistance and real property acquisition
- **Specific Requirements**
 - Eligibility

During the fiscal year ended December 31, 1995, the town had no major federal financial assistance programs and expended 88 percent of its total federal financial assistance under the following nonmajor federal financial assistance program: Department of Transportation) ISTEA (CFDA 20.205).

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the aforementioned nonmajor program. Our procedures were less in scope than would be necessary to render an opinion on these internal control structures policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses, as defined above.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

November 27, 1996